

BEFORE THE  
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Wisconsin Energy Corporation	)	
for Approval of a Transaction by which	)	
Wisconsin Energy Corporation Would Acquire	)	Docket No.:
All of the Outstanding Common Stock of	)	
Integrus Energy Group, Inc.	)	

**DIRECT TESTIMONY OF  
JAMES F. SCHOTT IN SUPPORT OF APPLICATION  
BY WISCONSIN ENERGY CORPORATION**

1 Q. Please state your name and business address.

2 A. My name is James F. Schott. My business address is Integrus Energy Group, Inc., 200  
3 East Randolph Street, Chicago, Illinois 60601.

4 Q. By whom are you employed and in what capacity?

5 A. I am the Executive Vice President and Chief Financial Officer of Integrus Energy Group,  
6 Inc. ("Integrus"). I have held these positions since January 2013.

7 Q. Please describe your educational and professional background.

8 A. I am a 1979 graduate of Georgetown University with a Bachelor of Science in Business  
9 Administration. I received a Masters in Business Administration from the University of  
10 Wisconsin – Milwaukee in 1993. I am a licensed Certified Public Accountant in the State  
11 of Wisconsin. I was employed by Arthur Andersen & Co. from 1979 to 1990,  
12 specializing in public utility taxation and ratemaking. From 1990 through 2002, I was  
13 employed by Wisconsin Gas Company and, after Wisconsin Energy Corporation  
14 ("WEC") acquired Wisconsin Gas's parent WICOR, Inc., in 2000, by Wisconsin Electric  
15 Power Company, in various finance and operating responsibilities. I served as Vice

1 President – Regulatory Affairs of Wisconsin Public Service Company from January 2003  
2 to April 2010. Upon the formation of Integrys, I became Vice President – Regulatory  
3 Affairs of Integrys, Peoples Gas, and North Shore. In April 2010, I was promoted to  
4 Vice President – External Affairs of Integrys, Peoples Gas, and North Shore. In January  
5 2013, I assumed my current role as Executive Vice President and Chief Financial Officer  
6 of Integrys. In my current positions, I provide executive leadership direction and support  
7 to all accounting, finance, and regulatory affairs functions of Integrys.

8 Q. What is the purpose of your direct testimony?

9 A. WEC seeks Public Service Commission of Wisconsin approval for a transaction by which  
10 WEC would acquire all of the outstanding common stock of Integrys (the “Transaction”)  
11 and approval of related affiliated interest agreements. My testimony covers two topics.  
12 First, I will describe Integrys’ corporate structure. Second, I will explain why Integrys’  
13 management believes the proposed merger will be beneficial for Integrys customers,  
14 employees, shareholders, and the public.

15 Q. Are you sponsoring any exhibits?

16 A. Yes, I have one exhibit, marked Ex.-WEC-Schott-1 for identification, that was prepared  
17 at my direction and under my supervision for this proceeding.

18 Q. Describe Ex.-WEC-Schott-1.

19 A. The exhibit is a chart showing the existing Integrys corporate structure. It identifies the  
20 direct subsidiaries of Integrys.

21 **OVERVIEW OF THE TRANSACTION**

22 Q. Please generally describe Integrys and its corporate structure.

1     A.     Integrys is a holding company, as defined by Wis. Stat. § 196.795(1)(h)1.a, that was  
2           originally formed in 1994 as WPS Resources Corporation (“WPSR”), and took its current  
3           structure in 2007 with the merging of WPSR and Peoples Energy Corporation (now  
4           Peoples Energy, LLC). Integrys presently owns and operates six regulated natural gas  
5           and electric utilities that serve a total of 2.1 million customers in Wisconsin, Minnesota,  
6           Michigan, and Illinois, plus a services company, Integrys Business Support, LLC  
7           (“IBS”). Integrys also presently owns and operates Integrys Energy Services, Inc.  
8           (“IES”), which provides competitive retail gas and electric supply to customers in  
9           22 states, including Illinois, across the Midwest and northeast quadrants of the  
10          United States, and Trillium CNG, a leading provider of compressed natural gas fueling  
11          services. In 2013, Integrys had total revenues of \$5.6 billion, with a net income of \$350  
12          million, and it employed approximately 5,000 people.

13                 Integrys’s subsidiaries have a long-established history of providing safe and  
14                 reliable energy distribution services to their communities. In Wisconsin, Integrys  
15                 companies have provided electric and gas service in the northeastern and north central  
16                 parts of the state since 1883. Integrys and its subsidiaries have received numerous  
17                 recognitions for their performance and community involvement, including:

- 18                 •     *Fortune* magazine ranked Integrys as a *Fortune 500* company  
19                         in 2014.
- 20                 •     Integrys received an overall global rating of 10 from  
21                         *Governance Metrics International* in 2011 and 2010.
- 22                 •     *Fortune* magazine named Integrys one of the Most Admired  
23                         Energy Companies in 2009 and 2010.

- *Forbes* magazine listed Integrys as one of the "20 Most Responsible Companies" in 2010.
- *H.R. Executive* magazine named Integrys its Most Admired Energy Company in HR for 2009.

Integrys' principal subsidiary in Wisconsin is Wisconsin Public Service Corporation ("WPSC"). Through WPSC, Integrys serves approximately 445,000 electric customers and 323,000 natural gas customers in northeast and central Wisconsin and an adjacent portion of Upper Michigan. Integrys owns – solely or jointly - several electric generating facilities with a combined 2,749 MW of electric generating capacity, 25,100 miles of electric distribution lines, and 23,300 miles of gas transmission and distribution lines.

Integrys also owns 34.07% of American Transmission Company, LLC ("ATC"), a federally regulated for-profit, transmission-only company that owns, maintains, monitors, and operates electric transmission assets in Wisconsin, Michigan, Minnesota, and Illinois.

Q. Are you aware of any changes that are likely to occur to the Integrys corporate structure prior to the closing of the Transaction?

A. Yes, there are two. First, in January 2014, Integrys announced an agreement to sell Upper Peninsula Power Company ("UPPCo"), which is an electric utility servicing customers in the upper peninsula of Michigan. This transaction is expected to close in the third quarter of 2014. Second, on July 30, 2014, Integrys announced that it has agreed to sell IES to a subsidiary of Exelon Corporation. This sale will not include IES's

1 solar generation business, which will be moved to another Integrys subsidiary. The sale  
2 of IES is expected to close the fourth quarter of 2014 or the first quarter of 2015.

3 Q. What will Integrys' status be following the closing of the Transaction?

4 A. Integrys will become a wholly-owned subsidiary of WEC, which will be renamed WEC  
5 Energy Group, Inc.

6 **BENEFITS OF THE TRANSACTION**

7 Q. Are you familiar with the testimony of Mr. Scott Lauber of WEC and Mr. John Reed of  
8 Concentric Energy Advisors?

9 A. Yes.

10 Q. Does Integrys believe that the Transaction with WEC will be beneficial for Integrys'  
11 customers, employees and shareholders, and for the public?

12 A. Yes. The Integrys board of directors voted unanimously in favor of the Transaction  
13 based on the compelling business case of combining two leading Wisconsin energy  
14 companies in terms of financial strength, technical depth and service quality. In addition,  
15 based on its knowledge of WEC and the testimony of Messrs. Lauber and Reed, Integrys'  
16 management believes that the Transaction will be beneficial to all of Integrys'  
17 constituencies: customers, employees, shareholders, and the general public.

18 Q. Based upon the testimony of Messrs. Lauber and Reed, what are the benefits to WPSC's  
19 utility customers of the Transaction?

20 A. WPSC's parent company will be a larger, more diversified and financially stronger  
21 energy company, better able to meet customer's future energy demands. WPSC's  
22 customers will notice very little -- if any -- change in their day-to-day interactions with  
23 WPSC as a result of the Transaction. WPSC will remain a separate company with

1 operations in Green Bay, and continue to receive from WBS all of the services currently  
2 provided by IBS. WPSC will continue to provide adequate, reliable, efficient and safe  
3 electric and gas service to its customers, and there will be no immediate change in the  
4 rates that WPSC's customers pay. Further, as explained by witnesses Scott Lauber and  
5 John Reed, over time WPSC customers will experience the benefits of WPSC's being a  
6 part of a larger, more diverse and financially stronger energy company. These benefits  
7 should include long-term efficiencies that will flow through to its customers in rate cases.

8 Q. What are the benefits of the Transaction for WPSC's employees?

9 A. The combined company, WEC Energy Group, will be a larger company that is better  
10 equipped to compete and maintain its independence in the rapidly changing energy  
11 business, which will inure to the benefit of its employees. The larger company will  
12 provide employees greater opportunities than they would otherwise have in a smaller  
13 company. Further, based on Mr. Lauber's testimony, WEC does not expect the  
14 Transaction to result in a large reduction in force that occurs in many corporate  
15 consolidations. Instead, WEC expects the vast majority of reductions in employee  
16 headcount resulting from the Transaction to occur over time through attrition. Moreover,  
17 WEC has committed to honor all existing union contracts.

18 Q. What are the benefits of the Transaction for Integrys shareholders?

19 A. Integrys shareholders, many of whom are WPSC employees and retirees, will initially  
20 benefit from the acquisition premium WEC will pay in exchange for Integrys' stock.  
21 Under the terms of the Transaction, Integrys shareholders will receive 1.128 WEC shares  
22 plus \$18.58 in cash for each Integrys share. Total consideration was valued on  
23 June 20, 2014 at \$71.47 per Integrys share, which represents a 17.3% premium to

1           Integrys' closing price on June 20, 2014, and a 22.8% premium to the volume-weighted  
2           average share price over the 30 trading days ending June 20, 2014. Upon closing of the  
3           transaction, Integrys shareholders will own approximately 28% of WEC Energy Group.  
4           Following closing, Integrys shareholders will hold an investment in a larger, more diverse  
5           and financially stronger energy company with the ability to grow more efficiently. Given  
6           its strong cash flows, WEC Energy Group will be able to fund more of the infrastructure  
7           investment programs of its subsidiaries, including WPSC, with internally generated cash  
8           flows, thereby avoiding the incremental fees and costs of using debt or equity to fund  
9           these programs.

10    Q.     Why is the Transaction in the best interests of the general public?

11    A.     Both WEC and Integrys have strong, deep roots in Wisconsin. As described by witness  
12           Scott Lauber, WEC Energy Group will remain committed to the communities it serves  
13           through volunteerism and financial contributions. The combined company will continue  
14           WEC's and Integrys' traditions of making significant contributions to regional  
15           development and to educational, cultural and charitable causes. The headquarters for the  
16           new combined holding company will be in Milwaukee, Wisconsin. WPSC will maintain  
17           an operational headquarters in Green Bay, Wisconsin.

18    Q.     Does this conclude your testimony?

19    A.     Yes.